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SIPDIS

NEA FOR FRONT OFFICE AND NEA/IPA; NSC FOR SHAPIRO/KUMAR;
TREASURY FOR AHERN
DEPT PLEASE PASS TO USAID FOR ANE/MEA:MCCLLOUD/BORODIN
JOINT STAFF FOR LTGEN SELVA

E.O. 12958: DECL: 05/06/2019

TAGS: [EAID](#) [ECON](#) [EFIN](#) [IS](#) [KWBG](#) [PGOV](#)

SUBJECT: PA BORROWS HEAVILY TO PAY SALARIES

Classified By: Consul General Jake Walles, for reasons 1.4(b) and (d)

¶1. (C) Summary. The Palestinian Authority (PA) borrowed heavily from local banks to pay its employees' salaries on May 7. Salaries were disbursed in the West Bank, but little was disbursed in Gaza due to the shortage of banknotes. As of 1700 local, no cash had entered Gaza for the banking system, despite press reports of GOI approval for the transport of NIS 50m (USD 12m). End Summary.

Making Ends Meet

¶2. (C) Ministry of Finance Director General Mazen Jadallah told Econoff that the PA paid April salaries on May 7 based on the regular monthly donation from the EC (USD 18m), the transfer of clearance revenues from the GOI (approximately USD 70m after deductions), and a significant amount of new borrowing from local banks.

"All Maxed Out"

¶3. (C) Palestine Monetary Authority (PMA) Governor Jihad al-Wazir told Econoff that nearly all local banks agreed to make loans to the PA in order to meet the salary payment. He said the PMA had to relax its restrictions on loan-to-deposit ratios for some of the smaller banks in order for these banks to provide loans to the PA. Al-Wazir characterized this move as a political decision to prioritize the stability of the current government over the banks. He said that PM Fayyad has now "maxed out" his ability to borrow from local banks.

¶4. (C) Mazen Abu Hamdan, Country Manager for Arab Bank, told Econoff that his bank agreed to loan USD 80m to the PA on May 6, but characterized it as "a tough decision," taken to support President Abbas and PM Fayyad. He urged the U.S. to increase pressure on Arab donors to fulfill their pledges of assistance to the PA. Hashim Shawa, General Manager of the Bank of Palestine, reported that the PA has now borrowed a total of USD 40m from the BoP, in addition to exercising its overdraft facility of NIS 370m (USD 92m). Al-Quds Bank confirmed a loan of USD 15m to the PA this month. Cairo Amman Bank said that it did not lend to the PA, but that the PA has taken full advantage of its overdraft facility.

The Donors are MIA

¶5. (C) The PA reports no other significant external donations over the past month. In a May 7 meeting with the Consul General, EC Representative Christian Berger said that

European officials had recently met with GCC representatives in Doha to press for increased support to the PA. Berger said the GCC response was "not even lukewarm." The Consul General pressed Berger to seek out additional funding from European states. Berger said there are "some noises" from donors, but the Commission has few reserves to draw from.

Very Little Disbursed in Gaza

16. (SBU) Salaries are generally not being disbursed in Gaza to PA employees, due to a lack of banknotes. Banks holding accounts for a small number of PA employees in Gaza may pay salaries, but the Bank of Palestine, which holds accounts for over half the PA employees in Gaza, does not have the cash on hand to do so. Israeli press reported the GOI gave permission to move NIS 50m into Gaza on May 6, but PMA contacts were unable to confirm any movement as of 1700 local on May 7. (The PMA requested permission on May 3 to transport NIS 195m, USD 19m, and JD 1m into Gaza to disburse PA and UNRWA salaries and social welfare payments.) UNRWA contacts confirmed that UNRWA submitted a separate request, and successfully moved USD 13.5m into Gaza on May 7 in order to pay their own salaries.

WALLES